

VZCZCXYZ0001  
PP RUEHWEB

DE RUEHAS #0078/01 0280956  
ZNR UUUUU ZZH  
P 280956Z JAN 10  
FM AMEMBASSY ALGIERS  
TO RUCPCIM/CIMS NTDB WASHDC PRIORITY  
RUCPDOG/USDOC WASHINGTON DC PRIORITY  
RUEHC/SECSTATE WASHDC PRIORITY 8365  
INFO RUCNMGH/MAGHREB COLLECTIVE PRIORITY

UNCLAS ALGIERS 000078

SIPDIS

EB/IFD/OIA FOR DAHN AND TWALSH, TREASURY FOR DO/JWALLACE,  
USDOC FOR ITA/JKOZLOWICKI, USTR FOR JKALLMER, OPIC FOR  
RO'SULLIVAN

E.O. 12958: N/A  
TAGS: [EINV](#) [EFIN](#) [ETRD](#) [ELAB](#) [KTDB](#) [PGOV](#) [USTR](#) [OPIC](#)  
SUBJECT: 2010 INVESTMENT CLIMATE STATEMENT - ALGERIA

REF: STATE 124006

Following is posts's submission of the 2009 Investment  
Climate Statement.

Begin Statement:

Overview

-----

Algeria, with its population of 36 million, its energy wealth, and growing demand for modern infrastructure and consumer products, has begun attracting interest from companies around the world. Despite the international financial crisis, U.S. firms continue to consider Algeria as an emerging export market that is expected to grow in 2010. However, the climate for U.S. firms considering direct investments in Algeria has worsened, particularly in the wake of a series of restrictive foreign investment rules enacted in 2009. Algeria's failures to join the WTO or to modernize its banking sector are other factors that have prevented significant foreign investment outside the energy sector.

These new investment measures, along with statements by senior leaders critical of foreign investors, reinforce the impression of a government turn in the direction of economic nationalism. This trend began in 2006 with amendments to the hydrocarbons laws that backtracked from market liberalization and required the national oil company Sonatrach to be a majority partner in all oil and gas projects, and imposed a windfall profits tax on oil production. President Abdelaziz Bouteflika sharply criticized the government's approach to foreign investment and privatization in July 2008, noting the policies had not achieved growth for Algeria's economy. Prime Minister Ouyahia shortly thereafter ordered a review of government policy. This review led to new, more stringent foreign investment regulations codified in the 2009 Complementary Finance Law, decreed by the government in July and subsequently ratified by parliament.

Financial sector reform is incremental at best, and the world financial crisis resulted in the indefinite suspension of the privatization of the state-owned bank Credit Populaire d'Algerie (CPA). Privatization in general has stalled across all sectors, although one American company successfully purchased the majority share of an industrial plant in early 2008. The government has supported state-owned companies experiencing financial difficulties by cancelling their debts and providing investment credits and technical assistance. Despite the less open investment climate, Algerian officials, often state their desire to see U.S.-based companies consider

projects in Algeria.

#### Openness to Foreign Investment

---

Algerian officials are quick to seek technology and know-how transfer. However, they have been pursuing efforts to secure greater returns for Algerian interests since the 2006 amendments to the hydrocarbons law, which required majority state partnership in all oil and gas projects and imposed a heavy windfall profits tax on oil profits when prices are above USD30 per barrel.

In July 2008, President Bouteflika publicly expressed anger over alleged massive profits reaped from foreign investments in Algeria and repatriated abroad. Since that speech, the tax law has been amended to require that investors re-invest within four years the equivalent value of any tax benefits they obtain as incentives to locate in Algeria. In addition, the major local cell phone provider in Algeria, a subsidiary of the Egyptian firm Orascom, was levied a USD600-million tax readjustment in November. U.S. investment outside of the oil and gas sector is currently limited to a pharmaceutical factory, a desalination plant, a bottling plant, and a cable-making factory.

Three agencies have mandates to encourage and manage investment in Algeria. The National Agency for Investment Development (ANDI) ([www.andi.dz](http://www.andi.dz)) is responsible for facilitating investments and granting tax exemptions; the National Investment Council (CNI) was created to define investment strategies and priorities as well as to approve special investment incentives by sector; and the Ministry

for Industry and Investment Promotion ([www.mipi.dz](http://www.mipi.dz)) maintains one office for investment policy and another for the promotion of privatization. The privatization process in Algeria has all but stopped, however, due in part to a lack of interest by foreign firms and the lack of a stable regulatory environment.

In July 2009, the government adopted a budget amendment (the Complementary Finance Law of 2009) which enacted restrictions on imports and foreign investment. These measures require 51 percent Algerian ownership of new foreign investment, 30 percent Algerian ownership of foreign import companies, and use of letters of credit for the payment of import bills. Additionally, a new Central Bank regulation stipulates that all invoices must state a due date for payment. Invoices without a due date or that exceed 360 days cannot be paid.

#### Conversion and Transfer Policies

---

The Algerian dinar is considered fully convertible for all commercial transactions. The Bank of Algeria (Banque d'Algerie, the nation's central bank) manages Algeria's foreign reserves, controls foreign exchange, and delegates most of these controls to the banks themselves. Legally registered economic operators can access foreign currency to make payments, subject to bank domiciliation, without any pre-authorization. Operators must possess a clean audit report and a certificate from the tax authority in order to repatriate funds.

Foreign investors can repatriate dividends, profits, and real net income out of their assets through transfers or liquidation. In certain cases, due to the inefficiency of the banking system and the heavy bureaucracy, it may take longer to obtain official permission from the central bank to make transfers/payments, or for the local bank to proceed with the transfer. However, U.S. suppliers benefit from generally faster and more predictable payments as a result of the mandatory letter of credit requirement. In addition, payment delays may result due to the new regulation that limits Algerian importers' payment options to letters of credit. Direct wire payments are no longer

authorized.

## Expropriation and Compensation

---

The government of Algeria has not engaged in expropriation actions against U.S. or other foreign firms.

## Dispute Settlement

---

Algeria is a signatory to the convention on the Paris-based International Center for the Settlement of Investment Disputes (<http://www.worldbank.org/icsid>). Algeria ratified its accession (<http://arbiter.wipo.int/arbitration>) to the New York Convention on Arbitration, and is a member of the Multilateral Investment Guarantee Agency (<http://www.miga.org>). The code of civil procedure allows both private and public sector companies full recourse to international arbitration. Algeria permits the inclusion of international arbitration clauses in contracts.

An American oil company this year exercised the dispute settlement mechanism in its contracts with the state oil company to contest the implementation of a windfall profits tax imposed long after the company began doing business in Algeria. Negotiations prior to conciliation and binding arbitration were very slow. The entire dispute resolution process, including arbitration, will likely take 18 to 24 months.

## Performance Requirements and Incentives

---

Algeria does not impose general performance requirements on foreign investments. However, the national energy company, Sonatrach, must be a majority shareholder in any hydrocarbon sector venture. In accordance with the 2009 Complementary Finance Law, foreign investments in any sector now require a 51-percent Algerian partnership.

The investment code provides a number of incentives for investment in Algeria, which are primarily related to VAT and other tax exemptions, for periods of time that are dependent on the type of investment and the nature of the package agreed between the investor and the National Agency for Investment Development (ANDI). The 2009 Complementary Finance Law requires foreign investors to reinvest in Algeria the equivalent of any tax benefits bestowed upon them, in a manner similar to the offsets investment requirement commonly seen in Gulf countries.

## Right to Private Ownership and Establishment

---

Foreign entities have largely equal rights to establish and own business enterprises in Algeria and engage in most forms of remunerative activity, within the framework of the requirements for majority Sonatrach participation in hydrocarbon ventures and the new requirement for majority Algerian participation in all new foreign investment. Private enterprises have equal status with public enterprises and compete on an equal basis with respect to access to markets, credit, and business operations.

## Protection of Property Rights

---

Secured interests in property are generally recognized and enforceable, but court proceedings can be lengthy and results unpredictable. Most real property in Algeria remains in government hands, and controversy over the years has resulted in conflicting claims for real estate titles, which has made purchasing and financing real estate difficult. One prospective U.S. investor seeking to build a factory in Algeria tried in vain for two years to obtain approvals from a local governor to purchase suitable land for the project.

While there is legislation protecting copyright and related rights, trademarks, patents, and integrated circuits, implementation has been inconsistent, and enforcement remains spotty. The Office of the U.S. Trade Representative placed Algeria on the Priority Watch list in 2009 for ineffective protection of pharmaceutical tests and data.

#### Transparency of Regulatory System

-----

Generally, Algeria's regulatory system is transparent, but decision-making authority remains opaque. Each ministry defines its rules for doing business in the sectors it manages, and regulatory bodies are established to administer them. Challenges arise in managing the bureaucracy, because authority is generally vested at the top of every organization, and access to decision-makers is often limited. Furthermore, the Algerian bureaucracy is slow and protocol-oriented, such that even minor deficiencies in paperwork can lead to significant delays, frustration, and fines. In some cases, authority over a matter may rest among multiple ministries, which imposes additional bureaucratic steps and the likelihood of inaction due to errors or unusual circumstances.

#### Efficient Capital Markets & Portfolio Investment

-----

After ten years, the Algerian stock exchange remains nascent, with only three companies listed. Long-term treasury bonds were listed on the stock market in 2008, but trading has sharply declined due to the increased number of fees required to trade the bonds. Shorter yield bonds continue to be managed through bond dealers. Other private bond investment vehicles are occasionally offered to the public for major construction or other ventures with rates of return reaching 6.5 percent.

The bond market plays a marginal role in the financing of the Algerian economy, which is mainly done through public expenditure or traditional banking credits. Most bonds are issued by public companies; however, a small number of private firms have issued bonds to finance investment in public works projects. In order to finance development projects and absorb excess liquidity, some state-owned companies have launched corporate bonds. Public companies, such as the national oil company Sonatrach, often choose to finance through a bank investment pool, which is guaranteed by the government.

#### Corporate Social Responsibility

-----

Corporate social responsibility practices are uncommon in Algeria. The state-run oil and gas company, Sonatrach, funds some social services for its employees and desert communities near production sites. Some multinational companies conduct similar social investment activities. Most companies, however, view social programs as areas of government responsibility and do not consider such activities in their corporate decision-making process. Many Algerians view corporate responsibility as a marketing tool used by companies to improve their image and increase their profits.

#### Political Violence

-----

Political violence has declined since the widespread terrorism of the 1990s. The government's effort to reduce terrorism through military pressure and social reconciliation and reintegration has been markedly effective. However, incidents of terrorism, including suicide bombings against government and international organization installations, occurred in 2006 and 2007, and armed attacks against army and police continue sporadically.

to this day. In 2007, a group of Algerian terrorists known as the Salafist Group for Preaching and Combat (French acronym GSPC) formally affiliated itself with al-Qa'ida and assumed the name Al-Qa'ida in the Islamic Maghreb (AQIM).

The U.S. Government considers the potential threat to U.S. Embassy personnel assigned to Algiers sufficiently serious to require them to live and work under significant security restrictions. These practices limit, and may occasionally prevent, the movement of U.S. Embassy officials and the provision of consular services in certain areas of the country. The Government of Algeria requires U.S. Embassy personnel to seek permission to travel to the Casbah within Algiers or outside the province of Algiers and to have a security escort. Travel to the military zone established around the Hassi Messaoud oil center requires Government of Algeria authorization. Daily movement of Embassy personnel in Algiers is limited, and prudent security practices are required at all times. Travel by Embassy personnel within the city requires prior coordination with the Embassy's Regional Security Office. American visitors are encouraged to contact the Embassy's Consular Section for the most recent safety and security information concerning travel to the city of Algiers.

Americans living or traveling in Algeria are encouraged to register with the U.S. Embassy in Algiers through the State Department's travel registration website, <https://travelregistration.state.gov>, and to obtain updated information on travel and security within Algeria. Americans without internet access may register directly with the U.S. Embassy Algiers. By registering, American citizens make it easier for the Embassy to contact them in case of emergency.

#### Corruption -----

Corruption is not as blatant a problem in Algeria as it is in many developing countries, although there have been a number of arrests in 2009 of high-ranking Algerian government officials in a variety of ministries and state-owned enterprises. Foreign companies do not complain of requests for bribes or lost contracts due to failure to pay bribes. However, customs officials have been known to demand bribes to expedite goods lingering in Algerian ports awaiting customs clearance. Many Algerian citizens believe that corruption is a problem within the upper reaches of government. Some evidence suggests that bribes are usually paid to bypass Algerian bureaucracy or to avoid government interference.

The government investigated several high-profile corruption scandals in 2009 and early 2010. One investigation implicated officials at the Ministry of Transportation on charges of fraud related to the construction of the East-West highway. Another involved senior officials of the state oil company Sonatrach investigated for corruption in procurement. Lower-level investigations involved customs officials and private sector executives charged with embezzlement, illegal currency transfers, and misuse of public funds.

In 2006, the Government of Algeria adopted an anti-corruption bill that reinforced existing legislation and brought Algeria into compliance with the UN Convention against Corruption, which Algeria ratified on August 25, 2004. The law was designed to promote transparency in government and public procurement, introduce new crimes such as illicit enrichment and reinforce existing penal sanctions.

Algeria is not a financial center, and financial transactions are tightly regulated. However, it is estimated that half of the country's economic transactions are done within the informal sector, effectively escaping the purview of state auditors. In 2005, the government

adopted anti-money laundering legislation and established a financial intelligence unit to monitor suspicious financial transactions and refer violations of the law to prosecutorial magistrates.

#### Bilateral Investment Agreements

-----

The United States and Algeria signed a Trade and Investment Framework agreement (TIFA) in 2001 to create a forum for involved discussion. TIFA council meetings were held in 2001 and 2004.

Algeria executed a European Union association agreement in 2005. The agreement provides for the gradual removal of import duties on EU industrial products over 12 years, and removed duties immediately on 2,000 other products. However, the EU has complained that some provisions in the 2009 Complementary Finance Law violate that agreement.

Algeria signed bilateral investment agreements for the protection and promotion of investments with the following countries in the indicated years: Belgium/Luxembourg (1991), Italy (1991), France (1993), Romania (1994), Spain (1994), China (1996), Germany (1996), Jordan (1996), Mali (1996), Vietnam (1996), Egypt (1997), Bulgaria (1998), Mozambique (1998), Niger (1998), Turkey (1998), Denmark (1999), Yemen (1999), Czech Republic (2000), Greece (2000), and Malaysia (2000). There is no bilateral investment treaty between Algeria and the United States.

Algeria has also signed bilateral treaties to prevent double taxation with the following nations: United Kingdom (1981), France (1982), Tunisia (1985), Libyan Arab Jamahiriya (1988), Morocco (1990), Belgium (1991), Italy (1991), Romania (1994), Turkey (1994), Syrian Arab Republic (1997), Bulgaria (1998), Canada (1999), Mali (1999), Vietnam (1999), Bahrain (2000), Oman (2000), Poland (2000), Ethiopia (2002), Lebanon (2002), Spain (2002), and Yemen (2002). There is no double taxation treaty between Algeria and the United States.

In 1990, Algeria signed both investment protection and double taxation agreements with the Arab Maghreb Union (AMU) countries (Libya, Morocco, Mauritania, and Tunisia).

#### OPIC & Other Investment Insurance Programs

-----

The U.S. Overseas Private Investment Corporation (OPIC) (<http://www.opic.gov>), the U.S. Export-Import Bank (Ex-Im) (<http://www.exim.gov>), and the U.S. Trade and Development Agency (USTDA) (<http://www.ustda.gov>) support projects in Algeria. However, the Government of Algeria announced in 2009 that all financing for future foreign investments in the country must be financed through Algerian banks.

A USD250-million water desalination project in Algiers was completed in 2008 with OPIC support, and Ex-Im supported the U.S. content of a power project in Skikda in 2003.

#### Labor

-----

Algeria's labor force consists of roughly 10 million (10,315,000 in December 2008) people out of a total population of 36 million. According to the National Office of Statistics, over 70 percent of the population is under age 30. Beginning January 1, the monthly minimum wage increased to DA 15,000 (USD215) from DA 12,000 (USD170). The official unemployment rate is approximately 13 percent (11.3 percent in December 2008), but international organizations believe it is as high as 25 percent.

Algeria's labor code sets minimum work standards, including a minimum work age of 16, a 40-hour workweek, and higher rates for overtime pay. Employers pay 26 percent of gross salaries in social security taxes, including provisions for

both retirement and health/accident insurance.

U.S. companies are able to hire trained technical staff. However, recruiting and retention has become more difficult, as well-educated and trained Algerians are increasingly lured by higher salaries offered in the Gulf region. English speakers remain difficult to find. Arabic is Algeria's official language, and French is the most common language of business.

There are no restrictions on the number of expatriate supervisory personnel a company may establish. Entry visas for foreign workers must be requested through the Ministry of Employment and Social Solidarity (<http://www.massn.gov.dz>). Foreign workers must then obtain work permits from the Ministry of Labor (<http://www.mtss.gov.dz>) and a residency card from the local police office in the district where they will be working. The employer is responsible for submitting all tax payments for individual workers to the proper local tax collection authorities.

Algerian regulations allow foreigners to repatriate 50 percent of their salaries.

#### Foreign-Trade Zones/Free Trade Zones

-----

There are currently no free trade zones in Algeria.

#### Foreign Direct Investment Statistics

-----

The Governor of the Bank of Algeria, Mohamed Laksaci, stated that foreign direct investment was USD700 million during the first half of 2009, compared to USD1 billion for the same period in 2008. Total foreign direct investment in 2008 was USD2.34 billion.

#### Web Resources

-----

##### Algerian government:

Algerian Embassy in Washington, D.C.:  
<http://www.algeria-us.org/>  
Bank of Algeria (central bank):  
<http://www.bank-of-algeria.dz/>  
Ministry of Employment and Social Solidarity:  
<http://www.massn.gov.dz/>  
Ministry of Energy and Mines: <http://www.mem-algeria.org/>  
Ministry of Finance: <http://finances-algeria.org/>  
Ministry of Labor and Social Security:  
<http://www.mtss.gov.dz/>  
Ministry of Industry and Investment Promotion:  
<http://www.mipi.dz/>  
National Investment Development Agency: <http://www.andi.dz/>  
Sonatrach: <http://www.sonatrach-dz.com/>

##### United States Government:

U.S. Department of State travel information:  
<http://travel.state.gov/>  
U.S. Embassy in Algiers: <http://algiers.usembassy.gov/>  
U.S. Department of Commerce: <http://www.export.gov/>  
Export Import Bank: <http://www.exim.gov/>  
Overseas Private Investment Corporation (OPIC):  
<http://www.opic.gov/>  
U.S. Trade and Development Agency: <http://www.ustda.gov/>

##### Non-Governmental:

Business Software Alliance (BSA): <http://www.bsa.org/>  
U.S.-Algeria Business Council: <http://www.us-algeria.org/>

##### International:

E.U. Association Agreement:

[http://europa.eu.int/comm/external\\_relations/euromed/med\\_ass\\_agreements.htm](http://europa.eu.int/comm/external_relations/euromed/med_ass_agreements.htm)

European Free Trade Association (EFTA):

<http://www.efta.int/>

International Monetary Fund (IMF): <http://www.imf.org/>

Multilateral Investment Guarantee Agency:

<http://www.miga.org/>

World Bank: <http://www.worldbank.org/>

Conventions:

New York Convention on the Recognition and Enforcement of  
Foreign Arbitral Awards

--

<http://arbiter.wipo.int/arbitration/ny-convention/index.html>

Paris-based International Center for the Settlement of

Investment Disputes: <http://www.worldbank.org/icsid/>

End Statement

PEARCE